Acquisition Accounting
5 Key Differences That Can Impact Your Financial and Tax Reporting

Presenters: Michelle Brower and Jay Wachowicz

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Speakers

Jay B. Wachowicz
Managing Director
jwachowicz@stoutadvisory.com
+1.248.432.1288

Michelle M. Brower
Director
mbrowser@stoutadvisory.com
+1.248.432.1213
I. M&A Accounting

II. Relevant Guidance

III. Key Differences: Book v. Tax

IV. Private Company GAAP

V. New ASC 350 Rules

VI. Questions
Polling Question #1

Have you been involved in a purchase price allocation in the last 12 months?

Yes
No
Purchase Price Allocation ("PPA")

- Mergers and acquisitions trigger financial and tax reporting requirements. One common requirement often needed for both purposes is acquisition accounting or a PPA.

- Subsequent to all transactions that involve a change in control

- Required for financial reporting for both asset deals and stock deals

- Required for U.S. tax reporting for ONLY asset deals (or deemed asset sales given an applicable election)
  - Requirements for entities with overseas operations may vary
**Purchase Price Allocation ("PPA")**

**Definition:**
Allocation of the purchase price paid to the assets and liabilities included in a transaction

**Goal:**
Accurately present the components of a company’s value / worth
Purchase Price Allocation ("PPA")

- Valuation of the individual assets acquired and liabilities assumed in a transaction
  - Net working capital
  - Tangible assets (personal property and real property)
  - Identifiable intangible assets (liabilities)
  - Liabilities assumed (e.g., assumed debt, contingent consideration, non-controlling interests)
  - Goodwill (calculated as the unallocated portion)

- Although a PPA performed for financial versus tax purposes may be similar, there are several key differences that could impact your reporting results
Polling Question #2

Of the deals you have executed have they predominately been asset or equity deals?

Asset
Equity
50/50
I. M&A Accounting

II. Relevant Guidance

III. Key Differences: Book v. Tax

IV. Private Company GAAP

V. New ASC 350 Rules

VI. Questions
Relevant Guidance

**Financial Reporting**

- **U.S.** – FASB ASC Topic 805, Business Combinations and Topic 350, Intangibles – Goodwill and Other (Public GAAP)
  - Regulation and Oversight – Securities and Exchange Commission (“SEC”)
- In 2014, Public GAAP was amended to provide privately-held companies with accounting alternatives aimed to simply the accounting and reporting process for PPAs (Private GAAP)
- Not a U.S. company? Other guidance includes, but is not limited to:
  - IFRS (approximately 90 countries have fully conformed)
  - Argentine GAAP, CPC (Brazil), JGAAP (Japanese GAAP), Indian GAAP, Russian Accounting Principles, Recommended Accounting Practice 7 (Singapore)
Relevant Guidance

Tax Reporting

Sections 1060 and 338 of the Internal Revenue Code ("IRC")
• PPAs for corporations under U.S. tax reporting purposes

Section 754 of the IRC
• PPA procedures for LLCs or partnerships (U.S. tax)

Sections 338 (h) 10 and 754
• Allows for elections to be made when a deal is structured as a stock transaction
• When elected, there is a “deemed asset sale”

Since the early 1990s, all intangible assets and goodwill have 15-year amortizable lives for U.S. tax
Relevant Guidance

**Form 8594**

In conjunction with Section 1060, companies are required to value intangibles assets in order to fill out Form 8594 for tax purposes.

Who files?
Classes of Assets

Class I
Cash & Equivalents

Class II
 Marketable Securities

Class III
 Receivables and the like

Class IV
 Inventory

Class V
 Fixed Assets & Real Property

Class VI
 Customer Relationships, Tradenames, Non-Competition Agreements, etc.

Class VII
 Goodwill
**Residual Method of Allocation**

- Reduce purchase price by Class I assets (cash)

- Allocate remaining purchase price to the remaining classes in ascending order (Class II through VII)

**Note:**
Given that a bargain purchase isn’t recognized for tax purposes, the allocation of value to the various classes is limited by the purchase price
Polling Question #3

*Do you often perform purchase price allocations (for tax purposes) contemporaneous with transactions to avoid buyer/seller surprises?*

*Yes*

*No*
I. M&A Accounting

II. Relevant Guidance

III. Key Differences: Book v. Tax

IV. Private Company GAAP

V. New ASC 350 Rules

VI. Questions
Key Differences: Book v. Tax

Factors that Impact the Computed Purchase Price

• Inclusion or exclusion of certain transaction costs
• Inclusion or exclusion of deferred taxes
• Inclusion or exclusion of accrued liabilities
• Inclusion and measurement of contingent consideration and liabilities
• Fair value measurement of assumed debt
# Key Differences: Book v. Tax

## Differences in the Purchase Price Computation

<table>
<thead>
<tr>
<th>Topic</th>
<th>Financial Reporting</th>
<th>Tax Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction Costs</td>
<td>Not included</td>
<td>Includes certain costs</td>
</tr>
<tr>
<td>Deferred Taxes</td>
<td>Included</td>
<td>Not included</td>
</tr>
<tr>
<td>Accrued Liabilities</td>
<td>Includes all</td>
<td>Includes some</td>
</tr>
<tr>
<td>Contingent Consideration and Liabilities</td>
<td>Included and measured at fair value if contractual and in certain cases if not contractual</td>
<td>Not included</td>
</tr>
<tr>
<td>Debt Measurement</td>
<td>Measured at fair value</td>
<td>Measured at face value</td>
</tr>
</tbody>
</table>
Key Differences: Book v. Tax

#2 Standard of Value

**Tax Reporting**

**Fair Market Value**

The price at which property would exchange between a willing buyer and a willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both having reasonable knowledge of the relevant facts (Treas. Regs. §20.2031-1(b) and §25.2512-1; Rev. Rul. 59-60, 1959-1 C.B. 237)

- Generally a tax-oriented standard
- Hypothetical buyer and seller, not specific
- No undue influence to buy or sell
- Knowledgeable buyer and seller
- Consider seller’s perspective, not just buyer’s
Fair Value

- FASB ASC Topic 820 Fair Value Measurement (U.S. GAAP)
- The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
  - Orderly – not a distressed transaction
  - Market participant – excludes buyer/seller specific attributes or synergies
  - Exit price concept
  - Measurement date – contemplate all contemporaneous information
Key Differences: Book v. Tax

#2 Standard of Value

Financial Reporting

Fair Value

• Similar to Fair Market Value (willing buyers and sellers), but the potential buyers and sellers is specified to “market participants”

• Market participants: buyers and sellers in the principal market for the asset or liability that have all of the following characteristics:
  • Independent of the reporting entities
  • Knowledgeable, having a reasonable understanding of the asset or liability and the transaction
  • Able to transact for the asset or liability
  • Willing to transact for the asset or liability (motivated, but not forced or otherwise compelled to do so)
Key Differences: Book v. Tax

#2 Standard of Value

Financial Reporting

Fair Value

Principal Market

• The market in which the reporting entity would sell an asset or transfer a liability with the greatest volume and level of activity for the asset or liability

Most Advantageous Market

• The market in which the reporting entity would sell an asset or transfer a liability with the price that maximizes the amount that would be received for the asset or minimizes the amount that would be paid to transfer the liability, considering transaction costs in the respective market(s)
Key Differences: Book v. Tax

#2 Standard of Value

Financial Reporting

Fair Value Hierarchy

Level 1: Market inputs that reflect quoted prices for identical assets or liabilities in active markets

Level 2: Market inputs other than quoted prices that are directly or indirectly observable for the asset or liability

Level 3: Inputs that reflect the entity’s own assumptions about the assumptions that market participants would use in pricing that assets or liability and are not corroborated by other market data
## Differences in Valuation Methodology

<table>
<thead>
<tr>
<th>Topic</th>
<th>Financial Reporting</th>
<th>Tax Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bargain Purchases</td>
<td>Gain recognized</td>
<td>Sequential allocation under the residual method</td>
</tr>
<tr>
<td>Ownership of Assets</td>
<td>At the reporting unit level</td>
<td>At the legal entity level</td>
</tr>
<tr>
<td>Goodwill Allocation</td>
<td>Can allocate to the buyer’s pre-existing reporting units</td>
<td>Only allocated to acquired entities</td>
</tr>
<tr>
<td>Asset Impairment Tests</td>
<td>Tested at the reporting unit level and assigned at a jurisdiction level</td>
<td>Assigned at the jurisdictional level and no impairment testing requirements</td>
</tr>
<tr>
<td>Tax Amortization Benefit for Intangible Assets</td>
<td>Always included</td>
<td>Included only to the extent amortization is tax deductible</td>
</tr>
</tbody>
</table>
Key Differences: Book v. Tax

#3 Valuation Methodology / Analysis Procedures

Bargain Purchases

Financial Reporting (U.S.)

Gain on bargain purchase recorded
  • Fair Value of net assets > consideration
    • The calculated gain impacts the P&L
    • No goodwill is recorded

Tax Reporting (U.S.)

No bargain purchase procedures exist
  • Each asset class (the seven categories discussed previously) is allocated value in sequential order with the shortfall at the most junior class(es)
Key Differences: Book v. Tax

#3 Valuation Methodology / Analysis Procedures

Ownership Assets & Goodwill Assignment of Value

Financial Reporting (U.S.)
Allocation is at the reporting unit level
  • Can add acquired assets to pre-existing reporting units

Tax Reporting (U.S.)
Allocation limited to legal entities acquired in the transaction
Key Differences: Book v. Tax

Financial Reporting (U.S.)
• Required at least annually for indefinite-lived intangibles (Public GAAP only)
• Required upon a triggering event (Private GAAP, long-lived intangibles)
• Performed at the reporting unit level
  • Many different options/guidelines exist for impairment testing

Tax Reporting (U.S.)
No impairment testing requirements
Key Differences: Book v. Tax

#3 Valuation Methodology / Analysis Procedures

Tax Benefit of Amortization

Financial Reporting (U.S.)
Always included in Fair Value

Tax Reporting (U.S.)
Only included if the amortization is a tax deduction for the Acquirer
Key Differences: Book v. Tax

#4 Illustrative Example

**Financial Reporting PPA**

Share Purchase with a 338 (h) 10 Election

- $300 million in initial consideration plus an earn-out
- Public Company GAAP is followed (U.S.)
- Single reporting unit
- Intangible assets identified: trade names and trademarks, customer relationships
- Fair Value of earn-out (contingent consideration) - $50 million
## Key Differences: Book v. Tax

#4 Illustrative Example

### Summary of Value Conclusions* (Financial Reporting)

<table>
<thead>
<tr>
<th></th>
<th>ABC Company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Working Capital</strong></td>
<td>$50,000,000</td>
</tr>
<tr>
<td><strong>Land</strong></td>
<td>2,150,000</td>
</tr>
<tr>
<td><strong>Buildings</strong></td>
<td>28,000,000</td>
</tr>
<tr>
<td><strong>Personal Property</strong></td>
<td>60,000,000</td>
</tr>
<tr>
<td><strong>Property and Equipment</strong></td>
<td>90,150,000</td>
</tr>
<tr>
<td><strong>Trade Names and Trademarks</strong></td>
<td>30,000,000</td>
</tr>
<tr>
<td><strong>Customer Relationships</strong></td>
<td>70,000,000</td>
</tr>
<tr>
<td><strong>Total Identifiable Intangible Assets</strong></td>
<td>100,000,000</td>
</tr>
<tr>
<td><strong>Other Assets (Liabilities)</strong></td>
<td>2,000,000</td>
</tr>
<tr>
<td><strong>Goodwill</strong></td>
<td>107,850,000</td>
</tr>
<tr>
<td><strong>Concluded Enterprise Value</strong></td>
<td>$350,000,000</td>
</tr>
</tbody>
</table>

*In U.S. Dollars, Unless Otherwise Noted
Key Differences: Book v. Tax

#4 Illustrative Example

**Tax Reporting PPA**

**Share Purchase with a 338 (h) 10 Election**

- The acquiree is comprised of 3 legal entities (Alpha, Beta, and Gamma)
- The consideration (excluding the earn-out) must be allocated to the legal entities
- NWC and other assets (liabilities) are allocated by legal entity
- Legal entity ownership investigated for the intangible assets (Alpha owns the trade names and trademarks AND customer relationships)
- Total goodwill does not equal financial reporting goodwill due to exclusion of the earn-out value
### Summary of Value Conclusions* (Tax Reporting)

<table>
<thead>
<tr>
<th></th>
<th>Alpha</th>
<th>Beta</th>
<th>Gamma</th>
<th>ABC Company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Working Capital</strong></td>
<td>$25,000,000</td>
<td>$10,000,000</td>
<td>$15,000,000</td>
<td>$50,000,000</td>
</tr>
<tr>
<td><strong>Land</strong></td>
<td>500,000</td>
<td>750,000</td>
<td>900,000</td>
<td>2,150,000</td>
</tr>
<tr>
<td><strong>Buildings</strong></td>
<td>6,000,000</td>
<td>12,000,000</td>
<td>10,000,000</td>
<td>28,000,000</td>
</tr>
<tr>
<td><strong>Personal Property</strong></td>
<td>40,000,000</td>
<td>12,500,000</td>
<td>7,500,000</td>
<td>60,000,000</td>
</tr>
<tr>
<td><strong>Property and Equipment</strong></td>
<td>46,500,000</td>
<td>25,250,000</td>
<td>18,400,000</td>
<td>90,150,000</td>
</tr>
<tr>
<td><strong>Trade Names and Trademarks</strong></td>
<td>30,000,000</td>
<td>0</td>
<td>0</td>
<td>30,000,000</td>
</tr>
<tr>
<td><strong>Customer Relationships</strong></td>
<td>70,000,000</td>
<td>0</td>
<td>0</td>
<td>70,000,000</td>
</tr>
<tr>
<td><strong>Total Identifiable Intangible Assets</strong></td>
<td>100,000,000</td>
<td>0</td>
<td>0</td>
<td>100,000,000</td>
</tr>
<tr>
<td><strong>Other Assets (Liabilities)</strong></td>
<td>1,000,000</td>
<td>500,000</td>
<td>500,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td><strong>Goodwill</strong></td>
<td>27,500,000</td>
<td>14,250,000</td>
<td>16,100,000</td>
<td>57,850,000</td>
</tr>
<tr>
<td><strong>Concluded Enterprise Value</strong></td>
<td>$200,000,000</td>
<td>$50,000,000</td>
<td>$50,000,000</td>
<td>$300,000,000</td>
</tr>
</tbody>
</table>

*In U.S. Dollars, Unless Otherwise Noted
Key Differences: Book v. Tax

#4 Illustrative Example

Financial v. Tax Reporting

Acquisition Accounting (PPAs)

• Numerous similarities, but several key differences exist

• Involving financial reporting and tax groups in the valuation process can create synergistic savings for the company

• Using the same analysis for each could be flawed based on the differences noted
Polling Question #4

Have you ever elected private company GAAP?

Yes
No
I. M&A Accounting

II. Relevant Guidance

III. Key Differences: Book v. Tax

IV. Private Company GAAP

V. New ASC 350 Rules

VI. Questions
Application – Why is this Relevant?

• Important for determining scope on purchase price accounting – which intangible assets need to be valued?

• Fewer requirements to do goodwill impairment testing.

• Relevant for private companies that might consider going public in the future. Going public would require company to retrospectively adjust historical financial statements to reverse the private company accounting alternatives.
Intangible Assets Accounting Alternative

• The FASB issued Accounting Standards Update No. 2014-18, Accounting for Identifiable Intangible Assets in a Business Combination on December 23, 2014. This provides private companies an accounting alternative to not recognize or measure certain intangible assets. Value is instead recognized in Goodwill.

• Specifically, the excluded intangibles include non-competition agreements and customer-related intangibles. Customer-related intangibles that are capable of being sold or licensed independently of the acquired business must still be recognized.
Customer-Related Intangible Assets

Valued

- Customer lists and information (such as contact information that can be bought or sold)
- Mortgage servicing rights
- Commodity supply contracts
- Core deposits

Not Valued

- Non-transferable customer contracts (regardless of duration, cancellability, or other terms)
- Non-transferable customer relationships (with or without outstanding contracts)
Intangible Assets Accounting Alternative

- Applies in any situation that the company (or other standalone entity such as a reporting unit) is required to recognize or otherwise consider the Fair Value of intangible assets as a result of one of the following transactions:
  - Business combination (ASC Topic 805)
  - Investments in an equity method investee under ASC Topic 323 (when assessing differences in basis between investor and investee’s net assets)
  - Fresh-start reporting under ASC Topic 852
- Customer-related intangibles and non-competition agreements that were previously booked do not need to be restated
Goodwill Accounting Alternative

• The FASB issued Accounting Standards Update No. 2014-02, *Accounting for Goodwill*, on January 16, 2014. This provides private companies an accounting alternative intended to simplify accounting and reporting for goodwill.

• If elected, private companies are able to amortize goodwill on a straight-line basis over a period of 10 years.

• Goodwill is only subject to impairment testing in response to a triggering event. The test can be performed at Company level or Reporting Unit level.

• Adopting the intangible asset accounting alternative requires the Company in question to also adopt the Goodwill accounting alternative.
Adoption of Accounting Alternatives

- Accounting alternatives must be applied as of beginning of first annual reporting period that the alternative is elected during.

- Intangible asset accounting alternative must be applied to first in-scope transaction in the annual period in which the alternative is selected. Must make selection for an entire accounting period – not case by case basis.

- Once election is made, accounting alternative must be maintained. Any changes would be considered change in accounting policy.
Private Company GAAP Valuation Methodology

• Differences in valuation methodology primarily relate to application of multiple period excess earnings method (MPEEM)
  • MPEEM is generally used to value the primary intangible asset of a company and is not used for secondary intangible assets (even if the primary asset is excluded under Private GAAP)
  • MPEEM still used for non-customer primary asset.
  • If MPEEM is used to value a non-excluded asset, then all intangible assets of the company (including customers and non-competition agreements) must be valued for contributory asset charges.
**Purchase Price Accounting Example**

**ABC Company**  
**Summary of Conclusions**  
*In U.S. Dollars*

<table>
<thead>
<tr>
<th></th>
<th>PRIVATE</th>
<th></th>
<th>PUBLIC</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net Assets Acquired</td>
<td>Fair Value</td>
<td>Net Assets Acquired</td>
<td>Fair Value</td>
</tr>
<tr>
<td>1</td>
<td>Intangible Assets Acquired</td>
<td>$ 0</td>
<td>1 Customer Relationships</td>
<td>$ 3,630,000</td>
</tr>
<tr>
<td>2</td>
<td>Cash and Cash Equivalents</td>
<td>0</td>
<td>2 Non-Competition Agreements</td>
<td>120,000</td>
</tr>
<tr>
<td>3</td>
<td>Net Working Capital, Net of Cash</td>
<td>497,223</td>
<td>3 <strong>Intangible Assets Acquired</strong></td>
<td>3,750,000</td>
</tr>
<tr>
<td>4</td>
<td>Net Property and Equipment</td>
<td>0</td>
<td>4 Cash and Cash Equivalents</td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>Residual Goodwill (Calculated)</td>
<td>5,039,777</td>
<td>5 Net Working Capital, Net of Cash</td>
<td>497,223</td>
</tr>
<tr>
<td>6</td>
<td><strong>Fair Value of Net Assets Acquired</strong></td>
<td><strong>$ 5,537,000</strong></td>
<td>6 Net Property and Equipment</td>
<td>0</td>
</tr>
<tr>
<td>7</td>
<td>Residual Goodwill (Calculated)</td>
<td>1,289,777</td>
<td>7 <strong>Residual Goodwill (Calculated)</strong></td>
<td>1,289,777</td>
</tr>
<tr>
<td>8</td>
<td><strong>Fair Value of Net Assets Acquired</strong></td>
<td><strong>$ 5,537,000</strong></td>
<td>8 <strong>Fair Value of Net Assets Acquired</strong></td>
<td><strong>$ 5,537,000</strong></td>
</tr>
</tbody>
</table>
Private GAAP Tax Implications

• Cases when private GAAP companies should still value their intangibles:
  • Considering a selling event like an IPO
  • Section 1060 (tax purposes) requires valuing all asset classes
### Example:
*Before Valuation for Section 1060 Purposes (Private GAAP)*

**ABC Company**

**Summary of Conclusions**

**Fair Value of Net Assets Acquired**

*In U.S. Dollars*

<table>
<thead>
<tr>
<th>Net Assets Acquired</th>
<th>Notes</th>
<th>Fair Value</th>
<th>Form 8594</th>
<th>Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Intangible Assets Acquired</td>
<td></td>
<td>$ 0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Cash and Cash Equivalents</td>
<td></td>
<td>0</td>
<td>I</td>
<td></td>
</tr>
<tr>
<td>3 Net Working Capital, Net of Cash and Inventory</td>
<td></td>
<td>373,765</td>
<td>III</td>
<td></td>
</tr>
<tr>
<td>4 Inventory</td>
<td></td>
<td>123,458</td>
<td>IV</td>
<td></td>
</tr>
<tr>
<td>5 Net Property and Equipment</td>
<td></td>
<td>1,243,000</td>
<td>V</td>
<td></td>
</tr>
<tr>
<td>6 Residual Goodwill (Calculated)</td>
<td></td>
<td>3,796,777</td>
<td>???</td>
<td></td>
</tr>
<tr>
<td><strong>7 Fair Value of Net Assets Acquired</strong></td>
<td></td>
<td><strong>$ 5,537,000</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Example:**

*After Valuation for Section 1060 Purposes*

ABC Company  
Summary of Conclusions  
**Fair Value of Net Assets Acquired**  
_in U.S. Dollars_

<table>
<thead>
<tr>
<th>Net Assets Acquired</th>
<th>Notes</th>
<th>RUL</th>
<th>Fair Value</th>
<th>Form 8594</th>
<th>Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Customer Relationships</td>
<td>17 years</td>
<td>$</td>
<td>800,000</td>
<td></td>
<td>VI</td>
</tr>
<tr>
<td>2 Non-Competition Agreements</td>
<td>5 years</td>
<td></td>
<td>120,000</td>
<td></td>
<td>VI</td>
</tr>
<tr>
<td>3 Intangible Assets Acquired</td>
<td></td>
<td></td>
<td><strong>920,000</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Cash and Cash Equivalents</td>
<td></td>
<td></td>
<td>13,244</td>
<td></td>
<td>I</td>
</tr>
<tr>
<td>5 Net Working Capital, Net of Cash and Inventory</td>
<td></td>
<td></td>
<td>360,521</td>
<td></td>
<td>III</td>
</tr>
<tr>
<td>6 Inventory</td>
<td></td>
<td></td>
<td>123,458</td>
<td></td>
<td>IV</td>
</tr>
<tr>
<td>7 Net Property and Equipment</td>
<td></td>
<td></td>
<td>1,243,000</td>
<td></td>
<td>V</td>
</tr>
<tr>
<td>8 Residual Goodwill (Calculated)</td>
<td></td>
<td></td>
<td>2,876,777</td>
<td></td>
<td>VII</td>
</tr>
<tr>
<td>9 Fair Value of Net Assets Acquired</td>
<td></td>
<td></td>
<td><strong>$ 5,537,000</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
I. M&A Accounting

II. Relevant Guidance

III. Key Differences: Book v. Tax

IV. Private Company GAAP

V. New ASC 350 Rules

VI. Questions
Old 350 Rules Overview (ASC 350-20-35)

**Step 0**
- More likely than not \( \text{FV} > \text{CV} \)?
- Qualitative assessment

**Any doubt I**

**Step I**
- Fair Value vs. Carrying Value

\( \text{FV} < \text{CV} \)

**Step II**
- Value all assets (PP/RE)
- Goodwill’s Implied FV
- ASC 360 Trigger
### Old 350 Rules

**ABC Company**

**Reconciliation and Indication of Impairment - Step I**

*In Thousands of U.S. Dollars*

<table>
<thead>
<tr>
<th>Notes</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Discounted Cash Flow Method</td>
</tr>
<tr>
<td>2</td>
<td>Guideline Public Company Method</td>
</tr>
</tbody>
</table>

| 3 | Concluded Enterprise Value | $732,900 |

| 4 | Add: Cash and Cash Equivalents | 4,366 |
| 5 | Add: Nonoperating Assets (Liabilities) | 13,732 |
| 6 | Add: Working Capital Surplus | 10,523 |

**7 Adjusted Enterprise Value**

| $761,521 |

| 8 | Carrying Value | $789,555 |

| 9 | Indication of Impairment - Step I [d] | Impaired |
### Old 350 Rules

**ABC Company**  
**Summary of Conclusions - ASC 350 Step II**  
**Summary of Goodwill Impairment Loss**  
*In Thousands of U.S. Dollars*

<table>
<thead>
<tr>
<th>Notes</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Fair Value of Business Enterprise (Step I Analysis)</strong></td>
<td>$ 761,521</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Less: Current Assets</td>
<td>[a] (27,366)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Less: Fixed Assets</td>
<td>[a] (477,423)</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Less: Trade Names and Trademarks</td>
<td>[a] (86,800)</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Less: Customer Relationships</td>
<td>[a] (16,100)</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td><strong>Fair Value of Assets (Excluding Goodwill)</strong></td>
<td>(607,689)</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Add: Current Liabilities</td>
<td></td>
<td>36,189</td>
</tr>
<tr>
<td>8</td>
<td>Add: Other Liabilities</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>9</td>
<td><strong>Fair Value of Liabilities (Excluding Interest-Bearing Debt)</strong></td>
<td>36,189</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td><strong>Implied Fair Value of Goodwill</strong></td>
<td>190,021</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td><strong>Net Book Value of Goodwill</strong></td>
<td>269,332</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td><strong>Goodwill Impairment of Reporting Unit</strong></td>
<td>$ (79,310)</td>
<td></td>
</tr>
</tbody>
</table>

[a] Fair Value
New ASC 350 Rules

New **350 Rules**

- **FASB ASU 2017-04**
  Intended to simplify the test for goodwill impairment

- **Elimination of Step II**

- **Cost and complexity of old goodwill impairment test excessive**

- **Carrying Value of RU less Fair Value of RU= Goodwill Impairment charge**

---

1 FASB Accounting Standards Update No. 2017-04, January 2017 Intangibles – Goodwill and Other (Topic 350)
### ABC Company

**Reconciliation and Indication of Impairment - Step I**

*In Thousands of U.S. Dollars*

<table>
<thead>
<tr>
<th></th>
<th>Notes</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Discounted Cash Flow Method</td>
<td>$730,900</td>
</tr>
<tr>
<td>2</td>
<td>Guideline Public Company Method</td>
<td>741,000</td>
</tr>
<tr>
<td>3</td>
<td>Concluded Enterprise Value</td>
<td>$732,900</td>
</tr>
<tr>
<td>4</td>
<td>Add: Cash and Cash Equivalents</td>
<td>4,366</td>
</tr>
<tr>
<td>5</td>
<td>Add: Nonoperating Assets (Liabilities)</td>
<td>13,732</td>
</tr>
<tr>
<td>6</td>
<td>Add: Working Capital Surplus</td>
<td>10,523</td>
</tr>
<tr>
<td>7</td>
<td>Adjusted Enterprise Value</td>
<td>$761,521</td>
</tr>
<tr>
<td>8</td>
<td>Carrying Value</td>
<td>$789,555</td>
</tr>
<tr>
<td>9</td>
<td>Indication of Impairment - Step I</td>
<td>Impaired</td>
</tr>
<tr>
<td>10</td>
<td>Goodwill Impairment Charge</td>
<td>$(28,033)</td>
</tr>
<tr>
<td>11</td>
<td>Book Value of Goodwill (Pre Impairment Charge)</td>
<td>$269,332</td>
</tr>
<tr>
<td>12</td>
<td>New Goodwill Value (Post Impairment Charge)</td>
<td>$241,298</td>
</tr>
</tbody>
</table>
New ASC 350 Rules

Who Does This Affect?

Public companies that have goodwill reported in their financial statements

Note:
Entities can still perform the optional qualitative assessment (Step 0)
When Will the Amendment be Effective?

• Public entities or non-private GAAP companies should adopt in the fiscal years beginning after December 15, 2019

• All other entities, including non-for-profit entities, should adopt in the fiscal year beginning after December 15, 2021

• Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017

• Prospective basis
I. M&A Accounting

II. Relevant Guidance

III. Key Differences: Book v. Tax

IV. Private Company GAAP

V. New ASC 350 Rules

VI. Questions
Jay B. Wachowicz
Managing Director
Financial Reporting and Corporate Tax Valuation Practice
Leader and Detroit Office Leader
Valuation Advisory
Detroit
jwachowicz@stoutadvisory.com
Office: +1.248.432.1288
Mobile: +1.248.703.4869

Jay B. Wachowicz is a Managing Director in the Valuation Advisory group.

Mr. Wachowicz has extensive experience domestically and internationally in several financial advisory fields including valuation, litigation advisory, mergers and acquisitions, and financial reorganizations and restructurings. He has provided valuation and consulting services for numerous purposes including bankruptcy proceedings, corporate strategic planning, intangible asset valuation, estate and gift taxation, purchase and sale advisement, purchase price allocation, goodwill impairment testing, stock options and warrants, fairness and solvency opinions, valuation discounts and other tax, corporate, and litigation related matters. Mr. Wachowicz has testified in litigation related matters and has been a lecturer at the Michigan State University Broad Graduate School of Management.

Mr. Wachowicz leads Stout’s Detroit office. Prior to joining Stout, he was a Manager with Navigant Consulting and a Senior Associate with Standard and Poor’s Corporate Value Consulting.

Professional Memberships
- CFA Society of Detroit
- CFA Institute

Education
M.B.A., University of Notre Dame
B.A., Michigan State University

Designations
Chartered Financial Analyst (CFA)

Practice Areas

Industry Focus
Aerospace, Defense & Transportation
Automotive
Business Services
Consumer, Retail, Food & Beverage
Diversified Industrials
Plastics & Packaging
Financials
Healthcare & Life Sciences
Technology, Media & Telecommunications
Michelle M. Brower

Director
Valuation Advisory
Detroit
mbrower@stoutadvisory.com
Office: +1.248.432.1213

Michelle Brower is a Director in the Valuation Advisory group. She specializes in the valuation of business enterprises, working capital assets/liabilities, and intangible assets for both financial and tax reporting purposes. In addition, she has provided valuation and litigation advisory services for numerous other purposes, including corporate strategic planning, estate and gift taxation, Employee Stock Ownership Plans, Subchapter C to Subchapter S conversions, purchase and sale advisement, stock options, valuation discounts and other tax, corporate and litigation related matters.

Ms. Brower has significant experience in a wide range of industries and co-leads Stout’s Business Services practice. She has also provided valuation services for several international clients and has experience completing large-scale legal entity valuations for global companies as part of corporate tax restructurings as well as executing financial reporting engagements under US GAAP, IFRS, and other international accounting standards.

Ms. Brower has presented continuing education seminars on the subject of business valuation for financial reporting purposes and authored numerous publications as well. Further, she is co-chair of Stout’s Women’s Resource Group and is an active supporter of inForum (a professional women’s group in Michigan) and the Michigan Women’s Tax Association.

Professional Memberships

- CFA Society of Detroit
- CFA Institute
- InForum Corporate Sponsor
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Thank You